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THE MIRACULOUS CREDIT CREATION OF PRIVATE BANKS

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As early as 400 years ago, English goldsmiths began to create paper money by administering their customers' gold coins and issuing a kind of certificate on them (indicating the amount of gold they had stored) and then lending it as quasi-money, without any further savings being made. Since it rarely made sense for the owners to claim their gold coins directly, the goldsmiths, who are to be understood as precursors of the private banks, were able to issue more documents to certain recipients than they themselves held gold coins in stock. Profit-oriented private banks subsequently tried to constantly increase the relationship between the amount of paper money and the amount of gold coins – but this did not yet quite hit the decisive mode of banking activities: For some time now, commercial banks have been creating so-called "girl money" with their loans, which is digitally recorded on bank accounts. The commercial banks do not lend the money that customers previously deposited with them, but they produce the money themselves by granting loans to customers.¹ The economist Mathias Binswanger even claims that the invention of the "creation of money out of nothing" preceded the industrial revolution. Our answer to this is, first of all, that although the banks create money in the form of bank drafts or draw on credit, they do not do so out of nothing, as Joseph Schumpeter also assumed, but rather in terms of, or access to, future capital growth. In this respect, one could speak of an invention under structural constraint that capital sets.

The creation of credit is by no means to be understood as a one-sided act in which, for example, a demiurge draws money "out of nothing", but credit requires specific interaction between the private bank as lender and the customer as borrower. Commercial banks can only "draw" on credit if they find suitable borrowers for the issue, the number of which depends on the current economic situation of an economy, whereby the banks assess the borrower's creditworthiness and creditworthiness (whether the borrowers are capable of repaying and paying interest), demand security and in part also check what the customers are using the credit for. The debtors therefore have to provide collateral when taking out a loan, such as a mortgage loan, in which a property is seized (in relation to a certain loan amount) and only becomes the property of the debtor after the loan amount, including interest payments, has been paid in full by the debtor. The basis of the creation of credit here is then a service already rendered before, the built real estate, which the bank values with a price. If, however, the borrowers use financial assets as collateral, the question of their valuation and complexity arises immediately. Thus a bond can secure a loan between creditor 1 and debtor 2 and it can then be transferred from creditor 1 to creditor 3 and from creditor 1 to creditor 4. (Sahr 2017: Kindle-

Edition: 5531) Obviously there are long securitisation chains and machinery here, which all in all enormously increase the financing potential of the financial institutions. For 2007, IMF economists noted that \$10 trillion in payment promises were due to this type of securitisation chain. If, for example, the security is a government bond that implies that the amount of 1000 euros and 10 euros in interest will have to be paid in one year, and this is transferred by means of a repurchase agreement for one month at a lower amount and at lower interest to a new investor, who in turn sells the bond for 14 days at an even lower price to a third party, who in turn transfers it even cheaper to a fourth party for one week – then it becomes immediately clear here that the security tends to lose its function. If the payment promise fails, the government bond can no longer be used in its place because it has simply diluted itself. And every link in the chain now represents a new danger for the failure of the entire chain, whereby the risks are not minimised as intended, but are actually multiplied, i.e. complexity risks are set in motion first and foremost.

There is a widespread misconception that commercial banks are pure financial intermediaries who borrow money from customers at a certain rate of interest and then lend exactly the same amount of money themselves at higher interest rates, or function like a logistics company that moves money capital to different places. Rather, however, the private

private banks are to be understood as generators of future payment promises, with which they first and foremost open up potentials for all possible economic processes. What the private banks spend as credit is not based on certain liabilities (deposits of customers and savers), on the basis of which they then grant credits, and this means that the commercial banks are not pure money brokers who merely exploit for themselves the power of a credit based on the savings of customers. They could then grant all the more loans the more they saved in an economy and the more the savings of the economic actors ended up in their bank accounts. All private banks would then be unable to lend more in a single country than their customers would be willing to make available to them. The economist Mathias Binswanger writes: "The banks would then be comparable to a blood bank in a hospital. The bank would then have to inform its customers from time to time, just like a blood bank: "Unfortunately, we don't have any savings at the moment, but you can put yourself on a waiting list and we'll let you know when we have your savings back."2 (Binswanger 2015: Kindle-Edition: 330) Thanks to the credit creation of private banks, however, new investments, higher employment and consumer spending and additional government expenditure can be financed without having previously been saved in an economy accordingly; rather, saving itself is to be understood as an effect of credit creation and forms a demand that implies either a liability or an asset. The credit is thus not simply a result of economic activities, but conversely it creates certain economic activities, it acts as a catalyst for investment and innovation, for employment and income. If, however, the private banks issue too much credit in relation to the supply of goods and services of an economy, then this can actually lead to inflationary developments, while the restriction of the credit volume leads to deflationary processes. Deflation increases the cost and value of debt, thereby benefiting asset holders, lenders and financial institutions in particular. In an over-indebted economy, the reduction of credit leads to a decrease in the supply of money, thus increasing the real value of money and its importance, while liabilities and debts can no longer be realized as money.

In order to grant loans, commercial banks do not need the savings of their customers; rather, their "productivity" consists in the management of future-oriented payment promises or the creation of loans, with which they finance and initiate profit-oriented investments and production processes of companies according to their own calculations, risk assessments and speculations. This does not merely mean a redistribution of funds, but that the commercial banks themselves operate as an essential growth-generating factor in the accumulation of capital in an economy and can thus stimulate and promote growth at the level of "real capital". If, on the other hand, additional investments had to be financed by more savings, this would not allow economic growth, since higher savings would lead to a corresponding decline in demand and investment and would therefore have a counterproductive effect on growth. Savings and consumption are inversely related and consumption is in turn proportional to the income generated by production. Finally, it is financed production that ensures that savings coincide with investment.³ This is Keynes' response to Say's law. The financing of investments purely through savings would be a zero-sum game that would only lead to the redistribution of financial resources. In order to generate economic growth, on the other hand, the investments must be higher than the savings, whereby additional investments can be pushed by the lending of private banks. Keynes clearly sees that the savings do not precede the investments, but that conversely higher investments lead to higher savings, provided that the private banks grant additional loans at balanced, i.e. at relatively low interest rates, thereby also creating new demand, through which the investment grows faster than the savings and the consumption faster than the income.⁴

Let us take a closer look at the process of credit creation. Whenever a commercial bank decides that a customer is creditworthy (he must hold securities and preferably have the potential for future capital realisation), he is given credit and a certain amount of money is credited to his account. These deposits, insofar as they arise from the granting of the loan itself, are called giral or book money, which is written to an account as a number at the touch of a button (which is why we also speak of keystroke capitalism) and with which today mostly only electronic payments are processed.⁵ Thus, digital money marks are lent, which represent the giral money and are written as a number on current accounts and on the part of the borrowers are always also a claim to (state) cash, provided that they make the contractually fixed promise to repay the loan in a certain period of time plus a certain interest rate (the price of the loan). When the commercial bank grants a loan, it has to deliver the money, which is a liability for it, directly to the customer and at the same time it owns an asset, in so far as it collects interest over a certain period of time, while the customer also owns an asset/credit on his bank account, but also enters into the obligation to repay the loan plus interest. These balance sheet relationships are essential for the relationship between creditors and debtors. The credit balances on the debtors' accounts can be described as "fictitious deposits" because they do not depend on the current cash holdings of a private bank. It

is wrong for the French economist Francois Chesnais to describe girl money as fictitious capital. (Chesnais 2016: 84) Fictitious capital is more likely to be called a security traded on the financial markets at a price that is a function of interest rates and the expectations of the buyer of the security. This is not true in the case of bank loans, which remain in the balance sheets of private banks. Only when bank money/loans are used for payments by holders of tradable securities do they transform into fictitious capital.⁶

By granting credit, the commercial bank has on the asset side of its balance sheet a credit claim against the customer, who on the liability side is opposed to the customer's deposit as a liability of the bank, which, and this is the crucial point, is not offset by a payment from the bank, but rather arises simply by the granting of credit by the bank, which expands its assets (repayment promise of the debtor) and obligations (towards the debtor) on both sides of the balance sheet. No other account of the bank or an external account will be reduced by the amount of the loan granted, but the bank can always pay its loans with its own promises of payment. Throughout the term of the loan, the Bank's promise to pay out the amount of the loan remains a promise, and only if the customer withdraws part of the amount in cash does the Bank have to reduce its cash reserves. (Cf. Seiffert 2014: 89f.) The bank books a loan on the assets side of its balance sheet and a numerically identical credit entry on the liabilities side or the current account of the borrower. While on the liabilities side of the bank balance sheet the liability appears as a deposit from the granting of credit, on the assets side the balance sheet total has increased by an amount that roughly corresponds to the loan (minus reserves). In technical jargon, this is called "balance sheet extension". (Cf. Schreyer 2016: 33f.) The liability simply appears in the bank's balance sheet as "customer deposits". The question of whether this amount is deducted from another account when it is booked, which leads to a reduction in other balance sheet items – either the reserves (partial reserve theory) or other funds (bank as financial intermediary) – can therefore be answered in the negative.

For the client of the commercial bank, the situation is as follows: Although he now has the credited sum of money at his free disposal, i.e. he can, at least as an entrepreneur, use the utility value of the money to earn extra money, at the same time there are corresponding debts to the bank. Thus both the bank (lender) and the customer (borrower) act in the role of the creditor and the debtor. While the customer receives a new credit balance and at the same time promises to settle the debt (creditor and debtor of the bank), the private banks also function as debtors (they owe the customer the payments) and as creditors, the latter because they create their own promise of payment qua girl money and thus also collect interest. In and with the credit files, the commercial banks and the customers mutually attest their creditworthiness. (Sahr 2017: Kindle Edition: 3729). We have long since arrived at interlinking structures in which the permanent creation, linking and scheduling of payment promises or promise relationships is at stake.

The creation of bank money means that the limits of lending initially lie entirely in the risk management of commercial banks. This is also confirmed by empirical analyses. The economist Richard A. Werner has investigated whether a commercial bank, when it makes money available to a borrower, transfers funds from other accounts (inside or outside the bank) to the borrower. (Werner 2017) He comes to the conclusion that the commercial bank did not transfer the money made available to the borrower from other internal or external accounts, so that both the partial reserve theory and the financial intermediary theory must be rejected. Instead, the bank has recreated the girl money by simply posting it as a deposit to the borrower's account, even though such a deposit did not take place at all on the part of the client or other clients. The loan amount is only accounted for or written to twice, namely as a repayment promise by the debtor and as the commercial bank's debt to the customer.⁷ New loans can then re-enter the process of credit creation as collateral and thus create further new loans.⁸ The purchase of securities (which the bank writes to itself as assets) is also to be subsumed under the heading of girl money creation or as a penniless purchase if the securities are bought with girl money, which did not previously exist.

When the Customer repays the loan, the amount of money is reduced by the corresponding amounts instalment by instalment, whereby the money paid in by the Customer is deducted from the bank balance without any other account being increased by this amount at the same time. The Customer's liability is therefore reduced by the same amount as the Bank's claim. During the term of the loan, there are usually only a few or no cash payments to the customers, so that the granting of the loan remains a promise of payment by the bank until the end of the loan agreement, which is dissolved again instalment by instalment with the repayment of the loan. There is already a limitation of the credit creation here, namely in the (albeit small) cash reserves which the commercial bank must hold in order to meet the cash withdrawals. If, however, the commercial bank is in a crisis of confidence, many customers could demand large sums of cash at the same time, which the commercial bank is not in a position to pay because it does not have the cash directly in stock – however, it is not yet insolvent, but only illiquid, if it still has assets (and receivables) which it can sell or get paid with a short delay. Commercial banks can also use the central bank to borrow cash by depositing securities accepted as collateral by the central bank. However, a large proportion of commercial banks' assets are claims that are not readily accepted as collateral by the central bank because relatively illiquid assets such as real estate, bonds, loans, etc. cannot be liquidated quickly enough as money. Moreover, in crisis situations, the mass sale of securities and real estate by commercial banks would cause prices on the financial markets to collapse.

The commercial banks realise profits during the term of the granted loans, which are called "seigniorage" and which result from the difference between the "value" of the money drawn and the production costs. The profits of the commercial banks (only the central banks are mentioned here in the textbooks) are thus generated by granting credits and crediting the borrowers to their accounts, for which interest is charged. The creation of credit itself does not generate profits, but exactly when a bank makes

interest claims. The bank only has to check the creditworthiness of the borrower, i.e. the probability that the borrower will repay and pay interest. The production costs are deducted from the gross seigniorage (interest), in particular the administrative and infrastructural costs associated with the circulation of the money (buildings, software, IT infrastructure and wages, at the ECB additionally the printing costs for paper money). (Häring 2016: 138)9

Let us show the creation of credit using an example that includes the interbank market from the outset. If the commercial bank 1 grants a customer A a loan, which is credited to his account, and this customer initiates a cashless payment to the account of customer B of commercial bank 2, then bank 1 records an outgoing payment and bank 2 a incoming payment. The commercial banks settle these two payment flows on special interbank loan accounts on a daily basis, whereby the differences on these accounts are settled in the medium term. If, however, the practice of granting loans between banks differs greatly, for example, one bank has more receivables from customers than another bank, then there will be unequal payment flows between the banks, which will influence their interbank loan accounts and thus also their respective profits. It is now no longer the bank internal entry Receivables/payables from customers, but the entries Receivables/payables between at least two banks, which are then essential for the changes in the cash flows. (Seiffert 2014: 46f.) It must be added that the commercial banks only accept each other's cashless payments because they are covered by central bank deposits, which in turn are as good as cash.

In the case of a cash outflow from commercial bank 1 to commercial bank 2, the former has debts to the latter, while for commercial bank 2 the amount of money represents a credit balance. At the same time, however, payments are also received into the accounts of commercial bank 1, so that there is a tendency to balance the debts and credit balances of the commercial banks involved in payment transactions – at the overall level exactly when all commercial banks provide loans of the same amount and all borrowers make transfers of the same amount to the respective commercial banks. However, taking into account the fact that the balances of the accounts in the daily business of the banks fluctuate constantly, the differences will tend to balance each other out over longer periods of time. The commercial banks also negotiate permissible differences (credit lines) in the balances with each other and this is also documented on the interbank credit accounts. In addition, the banks grant each other interbank loans with short-term and low interest rates.¹⁰ In the event of persistent payment differences, the commercial banks are obliged to settle the different amounts of money. This, however, brings into play a new type of account, namely the central bank account, where each commercial bank is legally obliged to hold such an account with the central bank of the respective country and on which credits (central bank money/money supply M0) of the commercial banks must be available in a certain amount. The commercial banks receive these credits from the central bank through the submission of securities and through loans.

When the loan is repaid, a writing process takes place which reduces the deposit money. For this purpose, the borrower makes corresponding sums of money available on his account, which are then deducted by the bank. Of course, this also leads to payment flows between the various commercial banks. If the banks involved make loan repayments of the same amount, whereby the same sums of money were transferred between the banks in advance, then credits and debts on the interbank loan accounts neutralise each other. The larger the proportion of internal transfers at a bank, the more independent that bank is from other commercial banks.¹¹

If the commercial bank 1 grants more loans than the commercial bank 2, then the first problems already arise here. If the borrowers of commercial bank 1 pay bills with the loan, which result in transfers to commercial bank 2, then there will be an imbalance on the interbank credit accounts of the participating commercial banks and commercial bank 1 may have to settle this difference with central bank money, which lowers the account balance on their central bank account. Commercial banks are obliged to hold certain sums of money on the central bank accounts (although these are subordinated to their own credit creation) and this forces them to deposit collateral (securities, precious metals, assets) and pay interest to the central bank on borrowings, which are, however, rather low. Therefore, if a commercial bank draws excessive bank drafts by lending and at the same time has a constantly higher outflow of bank drafts than its bank drafts, it is forced to borrow regularly (to be secured) from the central bank, with the money flowing into the central bank accounts of other banks. Although the commercial bank could now raise its lending rates, which led to a decline in the volume of its lending business, it could still generate higher interest income. However, competition between banks will not allow this in the long run. Or the bank increases the number of its customers, so that it can once again maintain a level playing field. And the more customers a bank has, the more likely it is that the money will circulate internally in the bank, so that no transactions are required on interbank loan accounts or central bank accounts.

So there is already a first answer to the question: Why do banks still bother to attract customers when they seem to be able to draw money out of nothing? Banks are initially interested in as many customers as possible to whom large sums of money are transferred by the customers of other banks, because this provides them with reserves for which they would otherwise have to pay interest. In the case of transfers between commercial banks that take place on the interbank market, they are dependent on reserves at the central banks.¹² The accounts of the commercial banks that hold them at the central banks serve as a clearing system between the commercial banks, i.e. the money flows that flow between the commercial banks are settled there. However, only the difference between the mutual transfers has to be settled on one day via reserves. A loss of client funds leads to a new need for reserves, which the bank cannot obtain in vain, as it has to provide services for the reserves either by lending securities to the central bank or by borrowing money from other banks. The outflow of customer funds and the absence of customer accounts therefore have a negative impact on banks' profitability. But since the interest rates of the central bank are now at zero

and the commercial banks are virtually swimming in reserves, the interest of private banks in customer deposits has declined sharply. Again, there is a difference between equity and reserves that is expressed in the fact that lack of reserves leads to a liquidity bottleneck at the banks, which today the central bank usually resolves immediately, while the destruction of equity leads to their bankruptcy.

The money they have created themselves circulates between the commercial banks. If a bank makes a positive difference between the payments made by its customers, then the difference between incoming and outgoing payments at another bank must be negative. Mutually offsetting sums can also lead to profits at both banks involved (withdrawals). Seiffert subsumes these processes under the term "structurally conditioned cooperative money creation". (Seiffert 2014: 46ff.) In contrast, we are not talking here about cooperative creation of bank money, but about competition-induced creation of credit, which constantly fuels the compulsion of private banks to innovate new financial instruments within the framework of the complex internationally interwoven network chains. Since every commercial bank has a large number of incoming and outgoing payments every day, payments between banks tend to balance each other out over a longer period of time. This is part of the competition between the banks. It can be assumed that the banks operate to a certain extent in the same mode, for example by using large sums of money to buy securities and derivatives, which in turn can increase their lending and withdrawals. And this in turn leads to new imbalances in banks' payment flows. The competition, which is recorded on interbank credit accounts, among other things, sets in motion balancing movements, which in turn are counteracted by new imbalances. These movements function differently than the compensatory movements to produce average profit rates involving industrial and commercial companies, industries and sectors. And the profit mechanism here is also different from that of industrial and commercial enterprises. If commercial banks can generate returns through credit creation, among other things, they are not dependent on "conventional profits" resulting from the management of the difference between sales and costs. The ultimate goal for a private bank is to skim off as high a share as possible of all possible profits of all commercial banks within a certain period of time, which result, among other things, from the granting of loans, within the framework of the mechanisms described above. However, a commercial bank must not push too far forward in its pursuit of extra profits, otherwise it itself will be in danger. The competition from commercial banks, which is evident on the money and capital markets, always has a disciplining effect; it is quasi-transcendental. And it is not only the large traditional financial institutions that participate in these processes, but also the banks of multinational automobile groups and the banks of other conglomerates.

It should be noted, however, that there are also cooperative aspects in the relations between the banks, for example when they grant each other loans and thus accept each other both as debtors and as creditors of similar sums (recursive loans) in order to facilitate further mutual payment flows. (Sahr 2017: Kindle-Edition: 6215) Today, these reciprocally granted loans can even be deposited with the central bank as a pledge.

To put the problem another way: If a bank 1 transfers this amount after a credited borrowing of 100,000 euros to the account of customer A to the account of customer B at bank 2, then this can grant a new credit, since it possesses a credit balance of 100,000 euros, which is covered with central bank money. What Bank 1 loses here in credit creation potential, Bank 2 gains in addition. The suspicion that the banks are only concerned with holding the highest possible deposits is emerging at this point. Savings banks would then indeed have relative advantages over large banks such as Commerzbank and Deutsche Bank. First of all, however, there are the already mentioned balancing movements between the banks again and again: if a bank permanently grants too high loans and thus more money flows out to it than it receives, then it must increasingly act as a borrower on the money market. This can lead to other banks critically assessing or even losing confidence in their solvency and then discontinuing lending to the bank. In this context, the concept of total financial capital and the corresponding competitive mechanisms remain decisive.¹³ Secondly, because of the high degree of their national and international networking, the major banks simply have the much more solvent credit customers.

What are the limits to the creation of bank money (and the realisation of profits) for the banks? The first limitation is that the banks do not collect the profits arising from the creation of credit directly when the loan is issued/addressed, but only over the term of the loan, when the borrowers regularly pay interest and repay the loans. If a borrower can no longer pay, the lending bank suffers losses (loss of central bank money and the equivalent value of the loan), bearing in mind that the borrower has at least brought money into circulation for a certain period of time. In relation to the total capital of the banks, losses mean that the liabilities of the banks exceed their credit claims.¹⁴

At this point, a further distinction is made between the limits created by the mechanisms of credit creation itself, influenced by the competition of enterprises, and those created by the documentation of the cash flows created by credit creation in the balance sheets of banks. (Seiffert 2014: 51ff.) The limitations of the first mode include the following: 1) The number of borrowers corresponding to the economic cycles of the economy and the monetary potential of their demand for scriptural money as well as the volume of available securities and fixed assets on the financial markets. Private banks, even if they have enormous influence on industrial investment, other economic activities and employment through the mechanisms of influencing interest rates, lending and changes in the money supply, remain dependent on the economic power of borrowers, which consists in being able to pay off debts and deposit securities, which is always a question of the economic development of a country and the world economy as a whole. And if private banks pay too little attention to regulating their liabilities in their balance sheets, then dangerous situations up to and including insolvency cannot be ruled out. 2) Excessive differences in payment flows between

commercial banks lead to further limitations. If a commercial bank grants too many or too high loans in comparison to other commercial banks and/or buys tangible assets and securities in too high sums, then it must reckon with debts on the interbank credit accounts, as there are now stronger outflows of payments compared to incoming payments. It should also be borne in mind that the size of a commercial bank and the corresponding degree of its national and international networking have a significant impact on credit creation.

With regard to the accounting and regulatory requirements that commercial banks must comply with, the following limits must be assumed (ibid. 94ff): 1) There are minimum reserve requirements. The legal minimum reserve is the amount that the commercial banks must hold in their accounts at the Federal Reserve. The ECB has set the minimum reserve for the euro area at 1%, based on the amount of customer deposits with a maturity of up to two years and debt securities issued by a bank with a maturity of up to two years. (ibid.) The bank's technical minimum reserves, which are related to cash, are determined by the bank itself. However, today the minimum reserve requirements are largely covered by the cash holdings that the banks would hold anyway. It should also be noted that the reserve balances do not have to be verified before the credit is created, but only afterwards, with private banks being able to obtain the reserves either on the interbank market or today without any problems from the central bank. Central banks can no longer afford to withhold reserve expenditure from commercial banks in order to ensure the smooth creation of credit and avoid bankruptcies, as they are forced to sell their assets quickly in the event of a shortage or imminent illiquidity, which in turn has a negative impact on the market prices of securities and derivatives and thus on the balance sheets of other companies (not just financial institutions). Central banks' minimum reserve policy must therefore be based on the business practices of private banks and is ultimately dependent on them. Thus, the reserves that commercial banks have to hold are no longer a limit to their lending, and the money multiplier (the percentage that banks have to hold as deposits to grant loans) no longer plays a significant role. Today, reserves are primarily a resource for private banks to keep the clearing processes running (the balancing of assets and liabilities at the end of a day on the interbank market).

2) Certain capital requirements that are now determined by the Basel 3 agreements. According to these, the banks must assess the funds on the assets side of the balance sheet against the risk of default, and depending on the amount, the positions on the assets side must be matched by a certain equity component. (ibid.) This is intended to cushion the losses that may arise from banks' lending business so that they are at least in a position to continue servicing their obligations. Today, commercial banks have to underpin credit, market and operational risks, whereby for the former the assets from securities, lending and tangible assets are multiplied by a risk weight of 0.20 (the other risks are extrapolated according to the ratios of the former). The resulting sum is again multiplied by 8%. (ibid.) However, the commercial banks today succeed again and again in inventing new forms of derivatives and loans, the risks of which are not yet represented in the Basel 3 regulations.

A bank's equity ratio is calculated as follows: The ratio between equity (core capital or share capital, i.e. subscribed capital plus retained earnings and reserves, supplementary capital and Tier 3 capital) and risk-weighted assets is first determined. (ibid.) There is a statutory equity ratio called the "core capital ratio", which fixes the proportion of equity in the Bank's total capital (balance sheet total). Since 2015, a core capital ratio of six percent has applied to German commercial banks, and it is expected to rise by one percentage point from 2019. Furthermore, it is assumed that supplementary capital will amount to two percent, so that the equity ratio will total eight percent. It is also being discussed that the banks should build up cyclical capital maintenance buffers that are dependent on economic developments and can be reduced during the recession. Here, too, it should be stressed that banks will continue to apply their own independent risk weighting and will be able to use either their own internal bank models or the ratings of the rating agencies when evaluating risks. In order to prevent such practices, it would be necessary to introduce a restriction on leverage or a maximum indebtedness ratio, in which the assets would then be introduced unweighted.

It must also be borne in mind that, in addition to real estate, IT infrastructure, software, etc., the banks' equity capital consists primarily of financial assets, i.e. promises of payment, and it must therefore be understood from the outset as an endogenous product of the banking sector, which today is not regulated by legal regulations alone and can be increased, for example, by issuing shares and retaining profits.

In principle, the private banks thus create their own assets or equity holdings. In addition, they can obtain loans on the OCT markets at any time to expand their financial leeway, where the contracts are concluded as promises of payment between two legal entities and are largely exempt from the regulatory requirements of state authorities. The securitisations discussed elsewhere here also belong to this type of financing. Finally, it is important for private banks not only to consider the scarcity of equity as a factor in the elasticity of their credit policy, but also to calculate the creditworthiness of those debtors who are in a position to pay certain amounts of money over a certain period of time, who realise profits for the banks and thus justify the risk taken by granting the loan. 3) Certain liquidity requirements, always bearing in mind that the probability of repayment of a loan must be calculated. 15

A further question follows on from this problem: Why are central banks still needed in the current financial system dominated by private banks and other financial institutions? First of all, commercial banks need reserves, as customers are constantly demanding cash (the demand for cash increases with the amount of money in the bank drawer); commercial banks need the central bank, which has the legal monopoly created by the state to produce it, to obtain cash. Secondly, commercial banks must hold minimum reserves, at least in certain countries. (However, the ECB has significantly reduced reserve ratios as part of its "quantitative easing" policy). The more money the private banks create, the more reserves they will have to call up at the central

bank. Thirdly, the reserves are needed above all in interbank transactions, which are settled via the central banks' clearing system. Although individual banks can also lend reserves to each other, the entire commercial banking system can only expand its reserves if they are made available by the central banks.¹⁶ Fourthly, the central banks are responsible for stabilising the value of a currency, which is always linked to the capacity of the state to tax its citizens sufficiently.

1 Joseph Schumpeter writes: "Something similar to certifying future products or giving the entrepreneur the power to pay for his promises is now real. This is the service which the banker provides to the entrepreneur and around which the entrepreneur turns to the banker ... so he would not be a middleman, but a producer of credit, i.e. he would create the purchasing power which he lends to the entrepreneur himself ... One could say without great sin that the banker creates money" (Schumpeter 1950:197).

2 If the commercial banks were actually only lending money that they had previously received from savers, that money would have to appear on the assets side of the balance sheets. The larger part of the money, however, can be found on the liabilities side of the balance sheets, and here in particular in the credit balances of bank customers. All the money in an economy is on the liabilities side of the bank's balance sheet, i.e. it represents debt.

3 Savings depend on investments, which in turn depend on the rate of profit. The accumulation rate (growth rate of capital) is related to the expected net profit rate (expected profit rate minus interest) and the savings rate is related to the relative financial gap between investment and savings. In the short term, the interest rate will increase if the gap is positive, but in the long term, the financing needs of companies will always be related to the average profit rates and the corresponding price levels.

4 Loans are used to finance investments and these flow back into the accounts of bank customers who do not necessarily spend them in the same year, among other things as income. This is then defined by the national accounts as saving. No causality can be derived from the ex post observations of the statistics, as is the case with GDP or national accounts, since the type of financing is not taken into account here. In addition, it must be taken into account that the financing of investments must lead to growth in wages and consumption, otherwise the new products cannot be sold at all. There must be an increase in the total output of an economy

5 Horst Seiffert calls this a "money-creating writing process". (Seiffert 2014: 31) When the amount is credited to the account (demand deposit), the money supply increases, which today consists to a large extent of deposits on bank accounts.

6 Unless the borrower withdraws the amount in cash, the granting of credit shall be deemed to be cashless payment transactions. This includes the reciprocal settlement of payments running on bank accounts by means of internal transfers within a commercial bank or payment transactions between the commercial banks (interbank market) qua bank money. If borrowers use their accounts directly as a means of payment without withdrawing cash, this process eludes the central bank.

7 On the other hand, a bank cannot pass on the deposit of customer Y as a loan to customer X, since the bank deposits represent a liability only for the bank (which is booked on the liabilities side of the bank balance sheet and is not an asset position that can be lent).

8 In the case of bank lending, girl money is created by an entry that corresponds to a balance sheet extension. The credit amount is entered both on the assets and liabilities side of the bank's business account. In the balance sheet, liabilities represent the origin of a sum of money, while assets represent its use. On the liabilities side there are the liabilities of the bank (bonds issued, account balances, equity), on the assets side there are, among other things, loans granted. The bank needs equity capital to secure the loans to a certain extent. The origin of the assets (debt capital) is the bank's debt, including its equity capital, which is defined as the "debt" that it incurs itself and does not have to repay (liability side). Interest is not created when loans are granted, but rather the corresponding sums are withdrawn from players who are in competition with each other. Interest only appears on the balance sheet when repayment and interest payments are due for the borrower. There is never enough money available to pay all interest in an economy.

The bank balance sheets refer to a synchronization effect, whereby the creditors on the liabilities side are to be given the impression that the debtors on the assets side will generate sufficient payment flows to serve the creditors. (Sahr 2017: Kindle-Edition; 5608) The balance sheets show that the debts of others or loans as assets balance out in dynamic and interdependent relationships with one's own debts or loans as obligations. However, new, settled or even failed relations constantly shift the balancing movements, whereby the balance sheets must actually be balanced at certain points in time by new debts, and all this happens under the condition that the agents take the place of debtors and creditors as risk carriers. The problem with bank balance sheets as short-term snapshots of corporate activities consists, among other things, in the fact that they are tied to a chain of unregistered or off-balance-sheet payment promises, that they contain self-reinforcing stochastic process protocols and, finally, that the existence of political guarantees, which protect the large banks today per se, must be taken into account. (ibid.: 5801)

9 The gross seigniorage of banks in the euro zone is currently expected to amount to around 300 billion euros per year. (Håring 2016:139) After deduction of administrative costs for employees and the IT infrastructure, the net profit will be approximately 150 billion euros.

10 The interest rates range between 0.5 and 1.5 percent, whereby they are based on key interest rates such as the Libor (London

Interbank Offered Rate) or the Eurobor (Euro Interbank Offered Rate), but are ultimately freely negotiated by the commercial banks. The amounts held on the interbank loan accounts are called nostro balances; they are entered accordingly in the banks' double-entry bookkeeping. The convergence of data collection and documentation, originally limited to financial transactions on the markets, is being enriched with new indicators, for which integrated business software is needed, and since the 1970s double-entry accounting has been carried out in companies with relational databases and programs.

11 Commercial banks tend to balance payments on their interbank credit accounts. With balanced balances of payments, certain withdrawals are virtually free for the banks. Since the banks are integrated into dense and complex networks, those banks in particular, which can show a corresponding size and thus also higher local, national and international interdependencies, have competitive advantages over the small and less networked banks. The banks are thus intensively intertwined with each other and are dependent on it depending on economic development ,

12 Only central banks can create reserves or central bank money by lending it to commercial banks. These, in turn, need it for their interbank transactions and for the purchase of government bonds.

13 Banks also draw money by buying assets (securities, foreign exchange, gold and land) from non-banks. For example, if a bank buys a company's bonds, it credits the company with an amount of money, just as it would when lending to the company. As long as banks buy more assets than they sell, they also create money. Securities are thus monetised by the bank, i.e. money is created without anyone else losing it. Government bonds are monetised twice over and can be sold by commercial banks to the central bank. When the government bonds are sold, the commercial banks receive reserves, which monetise the government securities for the commercial banks.

14 Since the banks only reserve small percentages of profits already realised in order to increase their equity capital, the danger of banks going bankrupt in crisis situations also increases from this point of view (on the other hand, large parts of the profits are distributed in the form of bonuses and dividends). Finally, if confidence in the bank continues to decline, there is a risk of a bank run. (Häring 2016: 160)

15 If, for any reason, the already low cash holdings of commercial banks are reduced, the credits built up on them must be reduced many times over in the form of sight deposits (at a ratio of 1 : 10 by ten times the cash outflow). This can lead to a credit crunch in the banking system. If all current account holders of a bank were to withdraw their balances in cash at the same time, it could turn out that only a fraction of their money is available at the bank. The bank in question would have to file for bankruptcy and there would then be a risk that other banks would also be emptied by customers.

16 Cash and reserves are created only by the central banks. Central bank money comprises cash plus reserves (commercial banks' accounts with the central bank) and cash in circulation. The corresponding monetary aggregate M0 is only a fraction of the monetary aggregates M1, M2 and M3. It is on the liabilities side of the central banks as it is a liability to commercial banks and non-banks. Currency no longer has to be exchanged for gold.

Money is accepted as a means of payment even if it is not covered by precious metals or real values, but by the confidence that, for example, loans will continue to be repaid in the future. Credit relationships as promises of payment only work if they are trusted by the population at large. With trust as a practice that guides and at the same time performs, insecurity, which also includes routines, is created and limited in social processes.

The future profit perspective, which a company opens up as a borrower of the bank as lender, is the starting point of mutual investment, and the realised profit of the company (which realises the interest payments to the bank, whereby these are primary) justifies the anticipations made with the debts. In short, the expected profit generates the means by which it is generated. So it does not matter whether the banknotes on the liabilities side of the balance sheet are covered by gold, commercial bills or government debt, but rather the confidence that the loans granted by the banks will be used productively or profitably, so that sustained economic growth will take place. The state can then repay its debt because it generates higher tax revenues as a result of economic growth. Companies will also be able to repay the loans easily, as they are doing profitable business. If banks grant loans that increase the production capacity of the economy, then the money is covered by the future productions made with this money.

17 In many cases certain enterprises are assigned to the producing enterprises, whereas they are much more to be regarded as financial enterprises. Take the example of Apple. Apple has a market capitalization of 750bn dollars. Apple owns 27bn dollars in assets/assets, which fall purely on equity, production facilities and equipment, while the financial collateral amounts to 170bn dollars. Apple's Braeburn company, based in Nevada, is now the largest investment fund in the world. In addition, Apple has been buying back shares massively since 1998 to increase its share prices and dividends. Transactions in derivatives trading have a volume of 120 bn dollars (nominally related to the contracts). (Cf. Norfield)

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